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Restaurant Business

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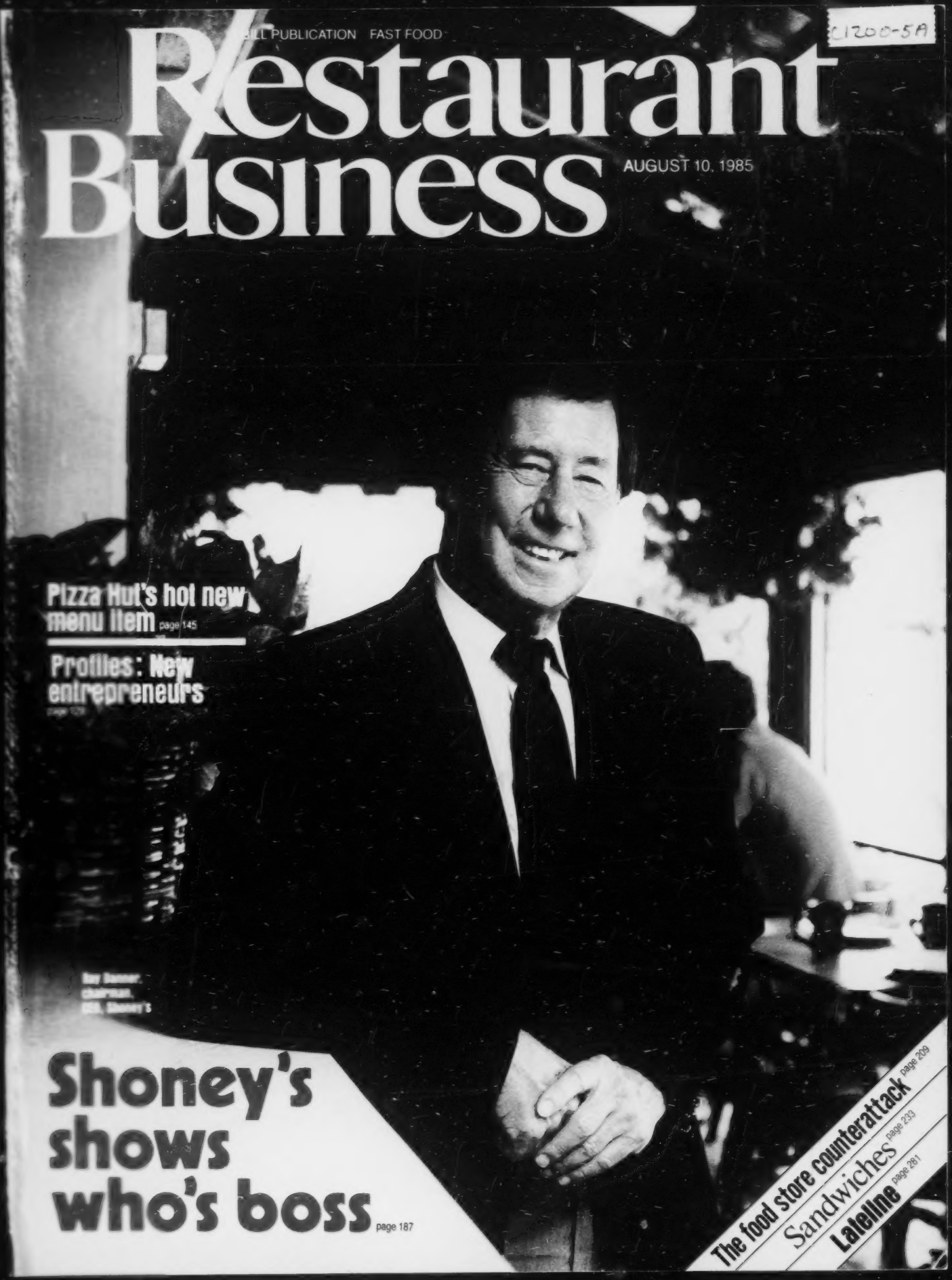

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Restaurant Business

August 10, 1985 VOL. 84 NO. 12

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Cover photo by Sam Causey.

Market Segment Report

The food store counterattack

by Jacque White Kochak

Salad bars, chicken, pizza and pasta are among the items supermarkets are promoting to compete with fast food for the away–from–home dollar.

Supermarkets are aggressively courting the "yuppie" who has more money than time, and catering to the needs of working women who don't want to spend time cooking. More and more, supermarketers see their deli/bakery operations as competition for fast food. If their efforts are successful, grocers just may win back some of the food dollars that customers now spend eating away from home at restaurants.

Delicatessens, bakeries, and sometimes in-store restaurants are becoming focal points of supermarkets. More and more, supermarkets are attempting to hire highly trained foodservice professionals. In fact, one Eastern supermarket chain has even hired a prominent restaurant consultant for advice on attracting and satisfying the busy consumer.

Salad bars are showing up with increasing frequency in supermarket produce departments. Many stores offer fresh, made-on-premise pizza and pasta from refrigerated cases, and there is a definite trend to expand hot food counters in delis. In fact, at some supermarket delis, you might find duck a l'orange and ratatouille on the hot foods counter right along with the standard barbecued chicken. Some meat departments are even offering such oven-ready fare as stuffed pork chops, stuffed flank steak, stuffed poultry, and marinated brochettes.

A few "super stores," as they are called in the industry, have installed pit smokers, stocked with mesquite,

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New Jersey-based Grand Union is expanding its hot foods program and courting foodservice pros as managers.

oak, and hardwoods, to turn out an array of smoked beef, pork, and poultry. In a few cases, supermarkets are even considering themselves complete "food centers," offering cooking lessons and catering as well as upscale restaurants.

The reason? Supermarket executives are paying attention to the same trends that restaurant executives ponder. For one thing, they realize more and more women are working. These women are under enormous time pressures, and they don't want to spend a lot of time cooking. The increased number of working women has resulted in an increase in discretionary income for many households. Add to the picture smaller families, later age of marriage, and a more mobile populace, and you have a completely different, more sophisticated supermarket customer than a few years ago, who is interested in variety, has a taste for the unusual, and is willing to pay a premium for convenience.

"Changing lifestyles mean that people are very interested in 'one stop shopping,'" says Karen Brown, a vice president at the Food Marketing Institute, the Washington, D.C.-based trade association for the supermarket industry. "They like to grocery shop and pick up that night's dinner at the same time."

"We are looking at food more like restaurateurs," adds restaurant industry veteran Robert Mohel, of Grand Union, a chain of 386 supermarkets in the East. "We're all trying to get the same dollars."

Delicatessens

In the supermarket trade, delicatessens, bakeries, and other types of foodservice are called "high service," offering warmth and personal contact within a supermarket environment that can otherwise seem rather cold. That is one of the reasons why supermarkets across the country are placing more and more emphasis on these departments even though they are not always as profitable as other departments.

Traditionally, supermarket delicatessens have been considered traffic builders and a service to customers rather than profit centers because of labor costs that are very high by supermarket standards.

"The key factor is control," says Walter Heller, director of research for *Progressive Grocer* magazine. "You don't make money in a deli unless you have good control, because of the high labor costs. And the food has to look fresh, or you're out of business."

Labor in a delicatessen typically runs 23 to 24 percent of sales. Though delis typically take up as much as four percent of total floor space, on the average they generate only 3.5 percent of sales, according to the Food Marketing Institute.

Nonetheless, deli sales were up 15.6 percent in 1984, partly because of increased sales and partly because of added units. Fifty-two percent of supermarkets now have service delis, and an additional 27 percent have self-service delis, for a total of 79 percent of supermarkets with delis. Most new supermarkets are small and less likely to have service deli operations. Large stores are adding or expanding delis at a steady pace.

Typically, delis are a completely different type of operation from the rest of the store, closer to fast food operations than to supermarket operations. As long as supermarket

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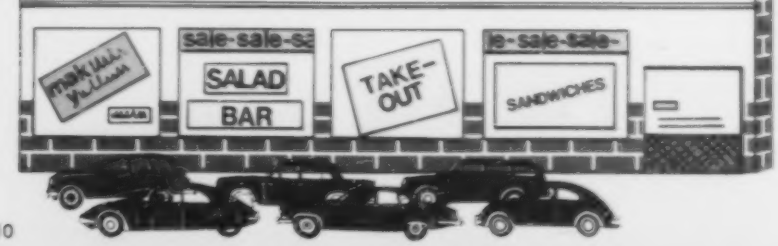
Top 20 Supermarket Chains

	—U.S. Supermarket sales— (Millions)			
	1984	1983	% Chge	No. Units
Safeway Stores, Inc., Oakland, CA	$15,042.8	$14,056.8	+ 7.0	2,012
The Kroger Co., Cincinnati, OH	14,473.0	13,931.0	+ 3.9	1,318
American Stores Co., Salt Lake City, UT	12,272.8E*	11,522.5	+ 6.5	838
Winn-Dixie Stores, Inc., Jacksonville, FL	7,530.8	7,133.1	+ 5.6	1,264
Lucky Stores, Inc., Dublin, CA	6,206.6	5,546.5	+11.9	622
The Great Atlantic & Pacific Tea Co., Montvale, NJ	4,955.7	4,328.1	+14.5	1,001
Albertson's, Inc., Boise, ID	4,735.7	4,279.3	+10.7	434
Supermarkets General Corp. Woodbridge, NJ	3,286.0	3,001.2	+ 9.5	175
Publix Supermarkets, Inc., Lakeland, FL	3,232.9	2,852.6	+13.3	276
Grand Union Co., Elmwood Park, NJ	2,587.4	3,606.3	—28.3	386
Vons Grocery Co., El Monte, CA	2,489.9	2,433.7	+ 2.3	176
Giant Food Inc., Landover, MD	2,120.8E	1,940.4E	+ 9.3	131
H.E. Butt Grocery Co., Corpus Christi, TX	1,800.0E	1,625.0E	+10.8	150
Waldbaum, Inc., Central Islip, NY	1,711.9	1,586.9	+ 7.9	142
Ralphs Grocery Co., Compton, CA	1,711.3	1,473.7	+16.1	126
The Stop & Shop Co's., Inc., N. Quincy, MA	1,657.6	1,425.3	+16.3	119
Food Lion, Inc., Salisbury, NC	1,469.6	1,172.5	+25.3	251
First National Supermarkets, Inc., Maple Heights, OH	1,279.8E	1,208.4E	+ 5.9	135
The Cullum Co's., Inc., Dallas, TX	1,268.4	1,155.5	+ 9.8	107
Hy-Vee Stores, Inc., Charleton, IA	1,230.0E	1,110.0E	+10.8	134
Total Top 20	$91,063.0	$85,388.8	- 6.6	9,797

E = Estimated.
*Includes estimates for full-year results of acquisition of Jewel Cos.
Analysis based on sales for four quarters ended nearest Jan. 1, 1985.



delis and bakeries were unimportant to the customer, supermarket chains allowed them to languish.

As delis have become more and more important to customers, however, sharp supermarket operators have responded by learning how to run them profitably. "Supermarket deli/bakery operators are learning aspects of the business that experienced restaurant people learned long ago," says Lee Dyer, director of merchandising for *Progressive Grocer*. For example, every Tom Thumb store built in the last 15 years has contained a combination deli/bakery, both under the same management. "In the last three to five years the percentage growth of the deli/bakery department has been considerably above the growth of the company's total sales," says Carroll Brown, vice president-deli/bakery. Tom Thumb's 44 deli/bakery combinations offer a breakfast of eggs, toast, biscuits, etc., along with lunch and dinner. Besides deli cold cuts, three different meat entrees are available at lunch, along with several varieties of hot vegetables. Hot food entrees are continually expanding and range from chicken fried steak to lasagna to stuffed bell peppers, all prepared on-premise. The deli also features 15 varieties of salad.

Self-serve salad bars are showing up in more supermarket produce departments to attract and satisfy busy consumers.

At Tom Thumb, 75 percent of the deli/bakery combinations offer seating for about 40 people, says Brown. During lunch, a good portion of customers come from outside the store for the express purpose of eating there. He adds that about 50 percent of the deli's business is take-out.

Growth in sales of hot foods is very important to some chains but of minimal importance to others. Thirty-nine percent of supermarkets now offer hot food counters.

One chain that has cut back on its hot food offerings is Boise-based Albertson's, with 434 units. Service delicatessens, however, are still considered an integral part of the store. "We haven't expanded our delicatessen mix in the last few years. We just push the basic commodities," says Gary Michael, vice chairman of the board. "Hot foods are more labor intensive, and we feel that unless you have a central kitchen you have no economies of scale. Hot foods just aren't feasible for us, with stores in 17 states."

New Jersey-based Grand Union, on the other hand, is expanding its hot foods program, and six of its 400 stores (located in 14 states) now have complete kitchens equipped with everything from fryers and steamers to ovens and microwaves. The restaurants are staffed by experienced chefs; for example, the Paramus, New Jersey, kitchen is headed by Anthony Maresca, a graduate of Johnson & Wales and a veteran of several well-known restaurants.

The Paramus deli/hot foods area is exemplary of what Grand Union is trying to accomplish. The area, called The Marketplace, dominates the center of the store, with European-style curved glass counters on four sides surrounding the kitchen. Counters are divided into sections for salads, deli meats, an array of domestic and imported cheeses, sandwiches, soups, fresh pastas, and a luscious array of ready-to-warm entrees and hot foods. The refrigerated entrees and side dishes, all sold by the pound under New Jersey law, are particularly unusual and range from pates and peppered duck to steamed bouquetiere of vegetables. According to the store manager, The Marketplace generates five percent of the store's total sales.

Some of the entrees and accompaniments from the six stores with kitchens are being offered at the delis in some of Grand Union's other supermarkets. The company also is investigating the use of a centralized production system to control quality.

"We're trying to steal business back from fast food operators," says Bob Willis, Grand Union's director

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Grand Union calls its Market Square "the best take-out restaurant in town."

of prepared food development. Like Mohel, Willis hails from New York's Maxwell's Plum and shares a background in restaurant management. "What we're trying to do is adapt the restaurant business to the supermarket business," he says. "There are differences, because the wage per hour we have to pay deli employees is much higher than the wage per hour for restaurant employees. However, we have access to so many ingredients from the supermarket, and Grand Union's purchasing power allows us to specify exactly what we want. I think in the long run you will see the quality of prepared food in supermarkets surpass that of many restaurants."

Future possibilities for Grand Union include kiosks devoted exclusively to fried chicken and biscuits, and possibly kiosks selling sorbets.

Another Eastern chain that is aggressively going after business lost to fast food operators is King's Super Markets, with 15 stores in New Jersey. King's has retained Joseph Baum, a well-known New York foodservice consultant, to advise the company on its program, according to Robert Bildner, vice president of foodservices.

King's has vastly expanded its line of cold cuts, salads, and cold entrees, with everything made from scratch in each store. Though he is reluctant to reveal sales figures, he says that King's deli departments are quite profitable, and other sources point to King's as proof that delis can be lucrative.

The trend to tackle fast food operators head-on has taken many forms, not always successfully. A St. Louis supermarket chain, Dierberg's, originally ran three "Cobblestone Corner" fast food counters separate from its delis. Two of those have been turned into video counters because the dollars they generated didn't justify the space, according to John May, who is in charge of delicatessens for the company.

One Cobblestone Corner, located in the upscale suburb of Creve Coeur, still generates long lines at lunch time. Customers are drawn from the many office buildings in the area, he says.

Dierberg's interest in its deli operations has never flagged, however. "In delis, people buy freshness and personal service," he says. "We feel ours are a definite plus to the store."

Obviously, one of the most important trends in delis is the expansion of product lines and the addition of gourmet specialties. This is occurring in most parts of the country, but there are exceptions. "Where upscale tastes exist, you'll find such expansion," says *Progressive Grocer's* Heller. "But the economy hasn't gotten better everywhere. Trendy salads aren't exactly the biggest thing in Youngstown, Ohio."

In other areas, however, the expansion into ethnic specialties, imported cheeses, etc., is dramatic. At

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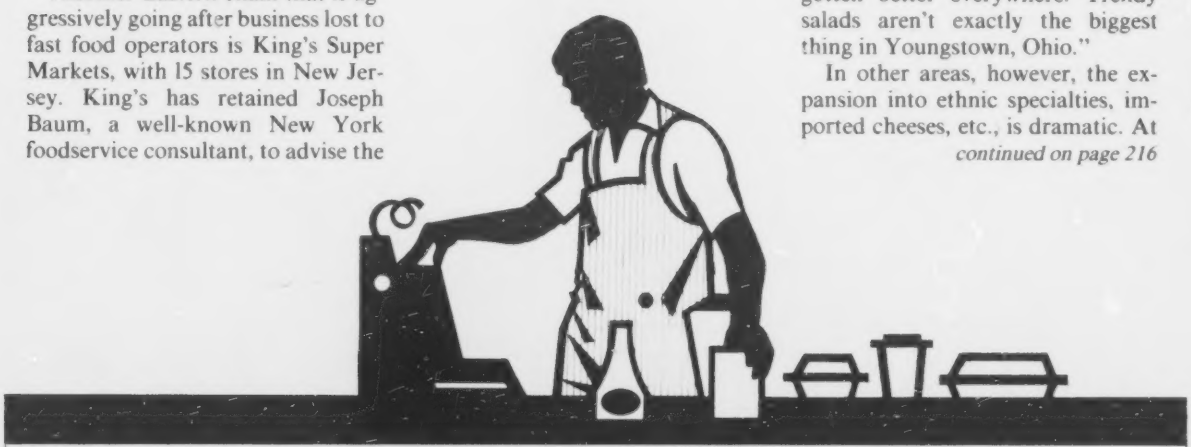

SUPERMARKET SALES AND SERVICES

	Number of Supermarkets	$ Sales (billions)	% with service deli	% with on-premise bake-off	% with catering	% with on-premise scratch bakery	% with self-service deli	% with salad bar	% with sit-down restaurant/ cafeteria	% with store-made pizza	% with store-made pasta
1973	40,960	89,150	26	13	9	8	N/A	N/A	N/A	N/A	N/A
1974	31,430	93,960	37	19	12	16	N/A	N/A	N/A	N/A	N/A
1975	31,710	103,690	34	20	13	15	N/A	N/A	N/A	N/A	N/A
1976	32,700	114,750	33	20	12	12	N/A	N/A	N/A	N/A	N/A
1977	33,400	138,470	36	23	13	14	N/A	N/A	N/A	N/A	N/A
1978	33,600	154,100	40	26	13	14	N/A	N/A	N/A	N/A	N/A
1979	34,900	102,830	41	26	14	17	N/A	N/A	N/A	N/A	N/A
1980	34,900	170,700	42	24	10	15	28	N/A	4	N/A	N/A
1981	28,680	171,620	49	29	12	16	31	N/A	5	N/A	N/A
1982	28,950	180,700	50	30	14	17	N/A	N/A	8	N/A	N/A
1983	29,550	189,170	53	36	15	17	25	8	11	N/A	N/A
1984	30,175	200,010	52	33	14	16	27	9	8	32	4

N/A—These figures are not available *Source: Progressive Grocer Magazine*

Bel-Air Markets in California, for example, two of the chain's newest stores offer Chinese cooking in their deli departments. There is a kitchen with Oriental chefs working from 11:30 a.m. until 7:30 p.m. to provide hot Chinese food for take-out in each location.

There are other geographic determinants to the success of delis besides the health of the economy. The Southeast has far fewer delis than any other part of the country, but that may be changing. One North Carolina-based chain, Food Lion (with 251 units) is adding deli/bakeries in many of its stores because of consumer demand. The majority are in the front of the store and feature sleek European-style cases. "The situation in the Southeast is definitely changing," says Michael Hughes, who is in charge of delis. "It should be interesting in the next few years."

Bakeries

Much of what applies to delicatessens applies to bakeries. Labor costs are high; typically, labor in a supermarket bakery gobbles up one-third of sales. Thirty-three percent of supermarkets have on-premise bake-off bakeries, and 16 percent have on-premise scratch bakeries, for a total of 49 percent. And the supermarkets that have on-premise bakeries are expanding and emphasizing them.

In fact, the nation's in-store bakers, collectively, opened an unequaled 1,729 new bakeries in 1984, a 13 percent increase from 1983, according to *Bakery* magazine. The booming Southwest registered the largest unit growth of any region last year, with the number of in-store bakeries increasing by one-third. This year, according to the magazine, supermarket bakers will add another 2,254 new in-store bakeries, for a 15 percent increase. These new additions will raise to 17,284 by year-end the total number of in-store bakeries in operation nationwide.

The biggest trend in bakeries is the addition of specialty breads and rolls. Cases once occupied by cakes, cookies, and plain white bread are now stocked with a wide variety of croissants, European crusty breads, and other ethnic items. Supermarket bakeries also are expanding their baking hours, so the enticing aroma of fresh baked goods fill the stores.

Delis, bakeries and, sometimes, in-store restaurants are becoming supermarket focal points to pull in more food dollars.

Restaurants

In the past, supermarkets have found limited success with on-premise restaurants, and the trend in the last couple of years has been markedly away from opening new units. In fact, only seven percent of independents and nine percent of chain-owned supermakets offer restaurants on-premise, according to Dyer of *Progressive Grocer*. Space is usually the problem, he says, because in-store restaurants frequently do not produce the sales-per-square-foot of other areas in the store.

"It's definitely not an idea that is dead, however," says Dyer. "It depends on the individual situation."

Recently, supermarkets have been opening full-service restaurants intended to succeed in their own right, rather than as adjuncts to the stores. They are usually part of large "food centers," and they draw customers who come to eat at the restaurant, not to shop at the supermarket.

One example is Pittsburgh's Ammaraca, a 70,000-sq.-ft. complex that includes a 28,000-sq.-ft. restaurant. The complex opened six months ago, and the restaurant, which seats 168, opened in December. So far, the restaurant is feeding 500 people a day from separate lunch and dinner menus that include chicken, veal, and seafood as well as 40 varieties of beer and wine.

The restaurant is reached through a light-filled atrium which also leads the customer into a shopping area. The glass-enclosed restaurant is modern and airy with a beige, vanilla, and brown color scheme.

A staff of 74 makes all entrees from scratch. Selections include fresh catfish, salmon, smoked salmon, veal parmesan, and chicken Polynesian. Most menu items are priced under $10; the average check is $5.75 at lunch, $8.25 at dinner.

The restaurant's kitchen is glass-enclosed and open to public view, and most of the restaurant food is also served at a 45-foot-long take-out case. The restaurant will account for about 10 percent of the supermarket's annual sales, estimates store manager Phil Friedlan.

The supermarket also has a smoker that turns out smoked beef, smoked turkey breast, and smoked ham, and operates a cooking school where a chef teaches classes in everything from soups to desserts. A 12-week course, consisting of three hours a week, costs $110.

"Restaurants in supermarkets haven't been expressive enough," says Friedlan. "I don't believe the idea is dead, because I don't believe it has ever been pursued in the way that we are pursuing it. Almost always before, restaurants in supermarkets have been conceived as a convenience to the shopper. At our restaurant, only 30 percent of the customers are shoppers."

Tom Thumb in Dallas also is approaching the supermarket restaurant in a more upscale way. Its newly opened Simon David gourmet store features a separate restaurant on the mezzanine, and so far crowds for the restaurant are standing room only, according to Carol Brown. In fact, the restaurant has been open only seven weeks, and seating capacity has been tripled, from 35 to 80.

"It's a completely different atmosphere from what you find in the typical supermarket restaurant," says Brown. "Everything is prepared from scratch in the kitchen, with three chefs on duty. We make fresh pasta every day. And a chef is on the floor most of the time visiting with customers." □

NOTE

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